

February 6, 2001

Return to Sender

Tax Overpayment Causes Record Tax Burden

This week, President Bush will unveil his plan to relieve the tax burden for all income taxpayers. The plan includes provisions to stimulate economic growth, reduce the family tax burden, and save family estates from the auction block, all while making the tax code simpler and fairer.

The case for the Bush tax relief package is strong. First, the record surplus — really, the tax overpayment — makes possible a policy of both paying down the debt *and* reducing taxes on working families. Second, the slowing economy has many observers worried that, absent some fiscal stimulus, our record economic expansion may turn into a recession.

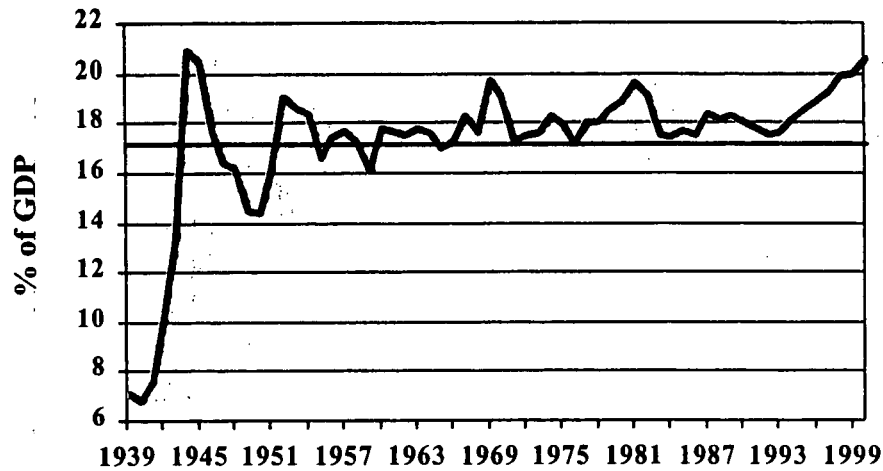
A third argument for cutting taxes — and the focus of this paper — is the burgeoning family tax burden. No matter how you look at it — as a portion of national income, as the burden per citizen, as compared to other family expenses, or in terms of actual time spent working just to fund government — the federal government is taking more of a typical family's income than at almost any time in our history.

Federal Tax Burden

Federal revenues in fiscal year 2000 pulled more than \$2 trillion from the economy for the first time in American history. Along with being at the highest level ever, the federal tax burden is also at the highest rate as a percentage of Gross Domestic Product (GDP) since World War II. In 1944, revenues reached 20.9 percent of GDP; today, revenues have returned to that extraordinary level and are at 20.6 percent, well above our historical norm.

Since 1939, the average tax burden has been 17.2 percent, and never during the Korean War, the Vietnam War, nor the Cold War did revenues even reach 20 percent of GDP. Yet the federal tax burden continues to take more financial power out of the economy without cause, as the federal government over the last two years has nabbed more than 20 cents of every dollar Americans have earned. The impact on the economy and, especially, on American workers and their families has been immense.

Federal Tax Burden

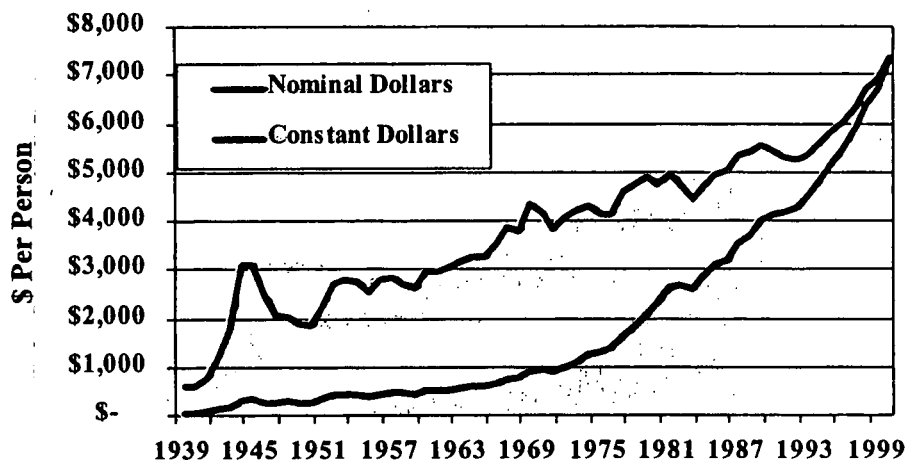


Source: Economic Report of the President, January 2001

The Onus Is On You, and You ... and You

Another measure of the growing tax burden is to examine the impact on the typical individual taxpayer. Since 1939, the average federal tax per American citizen has risen from \$48 to \$7,354 today, an increase of more than 15,000 percent! Of course, a dollar today isn't worth what it was 60 years ago. Yet even after adjusting for inflation, federal taxes per capita have risen from less than \$600 to more than \$7,000 — an increase of over 1,100 percent.

Federal Tax Burden Per Person



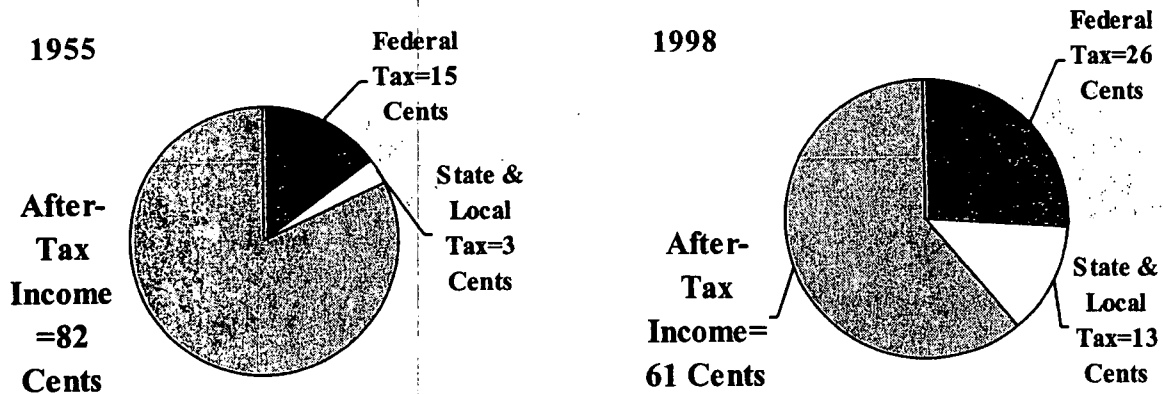
Source: Economic Report of the President, January 2001

Impact on Families

A record bite out of our total national income and rapidly rising per capita tax burden means less spending money for American families. But federal taxes are not the only culprits. State and local taxes have risen as well. The take from rising federal, state, and local taxes hinders the ability of families to make ends meet.

For example, according to the National Taxpayers Union, a family of four in 1955 had a total income, after tax, of 82 cents for every dollar earned. Today that after-tax share has been cut to just 61 cents. That's a 25-percent cut in the family's spendable income.

Federal, state, and local taxes consume almost 40 cents of every dollar a median-income family earns — *an amount greater than the family spends on food, shelter, clothing, and education combined.*



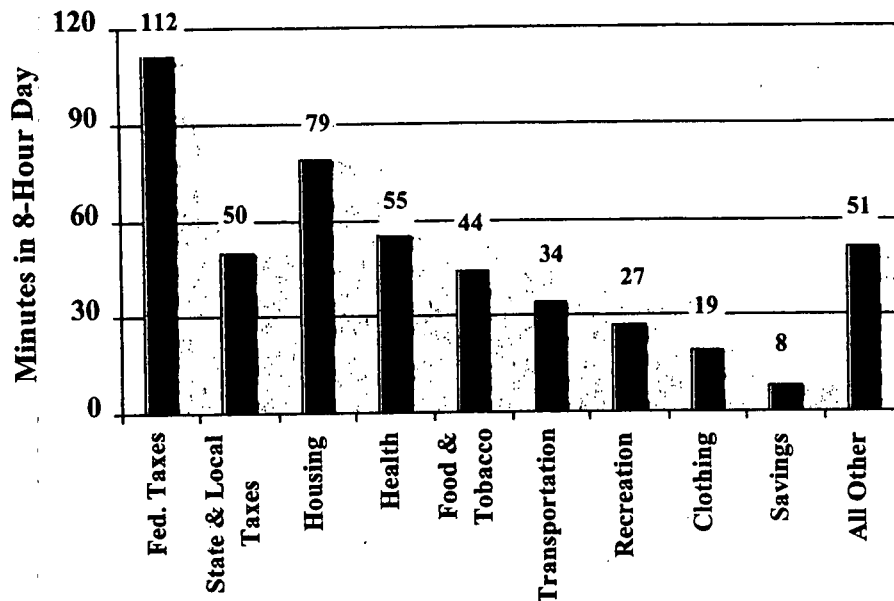
Source: National Taxpayers Union—Amount of Tax Per \$1 of Median Family Income

All in a Day

Another way to measure the immensity of the federal tax burden on hard-working Americans is to look at the taxpayer's typical eight-hour workday. Starting at nine in the morning, the typical worker will spend the next 112 minutes — until 10:52 a.m. — just working to pay her federal taxes. Another 50 minutes until 11:42 a.m. — is spent earning enough to pay the state and local taxes.

That means, in an eight-hour day, the typical American works just under two hours to pay the federal taxes and nearly three hours to pay all taxes, federal, state, and local. In contrast, she devotes only eight minutes to her savings account.

Tax Burden in the Eight-Hour Day, 2000

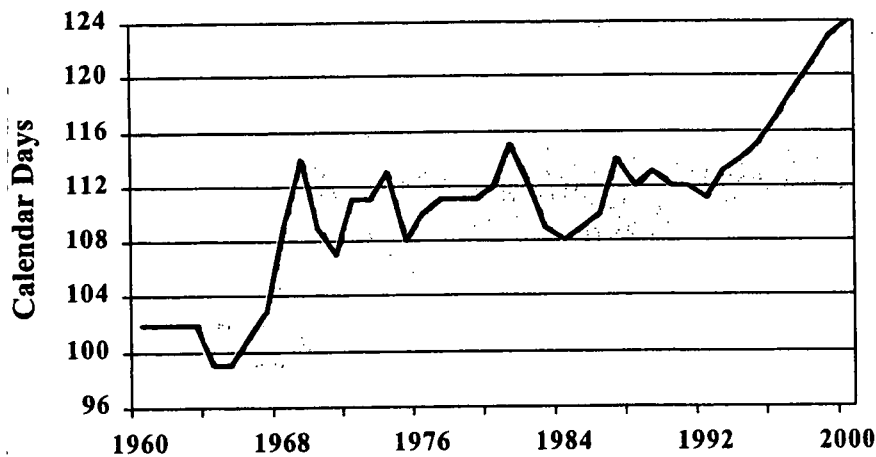


Source: The Tax Foundation

Tax Freedom Day

May 3rd of last year was Tax Freedom Day. That was the calendar day the typical American stopped working for the government and started working for himself. May 3rd was the latest Tax Freedom Day on record, more than four months into the calendar year. As the Tax Foundation noted, in just the last eight years, Tax Freedom Day has moved back nearly two weeks, from April 20th to May 3rd.

Tax Freedom Day, 1960-2000

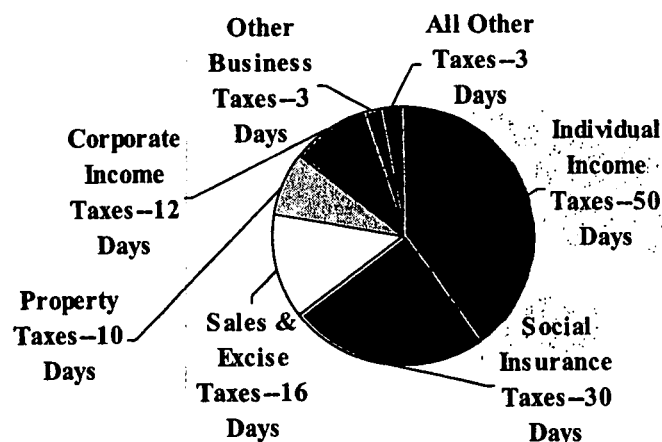


Source: The Tax Foundation

One way to examine Tax Freedom Day is to look at the impact of various taxes. Individual income taxes make up the largest portion, setting taxpayers back 50 days from the beginning of the year.

Meanwhile, corporate and other business taxes take up 15 days for the typical worker. Since corporate taxes are paid by the stockholders, workers, and customers, those taxes are passed on to the family almost as if they were individual, rather than corporate, taxes. All told, the typical worker toiled 124 days last year to pay all the taxes imposed by federal, state, and local governments.

Tax Freedom Day, 2000 — 124 Days Spent Working for Government



Source: The Tax Foundation

What's Right for Families

President Bush's effort to reduce the tax burden on all taxpayers will succeed because it makes sense for the budget, the economy, and the American family. All income-taxpaying families will see positive benefits, but low- and middle-income families are the biggest winners:

- One in five taxpaying families with children will no longer pay any tax at all.
- A family of four making \$35,000 would get a 100-percent cut.
- A family of four making \$50,000 would get a 50-percent cut – receiving a cut of at least \$1,600.
- A family of four making \$75,000 a year will receive a 25-percent tax cut.

Americans are paying more of their income to the federal government than at almost any time during our history. Yet the economy is strong and we're not at war. There is no excuse not to return some of the tax overpayment families are currently making to help them pay for better homes, education, and retirement.

Paper by Christopher Field;
RPC Contact: Brian Reardon, 4-3103